

# Local Minimum Wage Laws: Impacts on Workers, Families and Businesses

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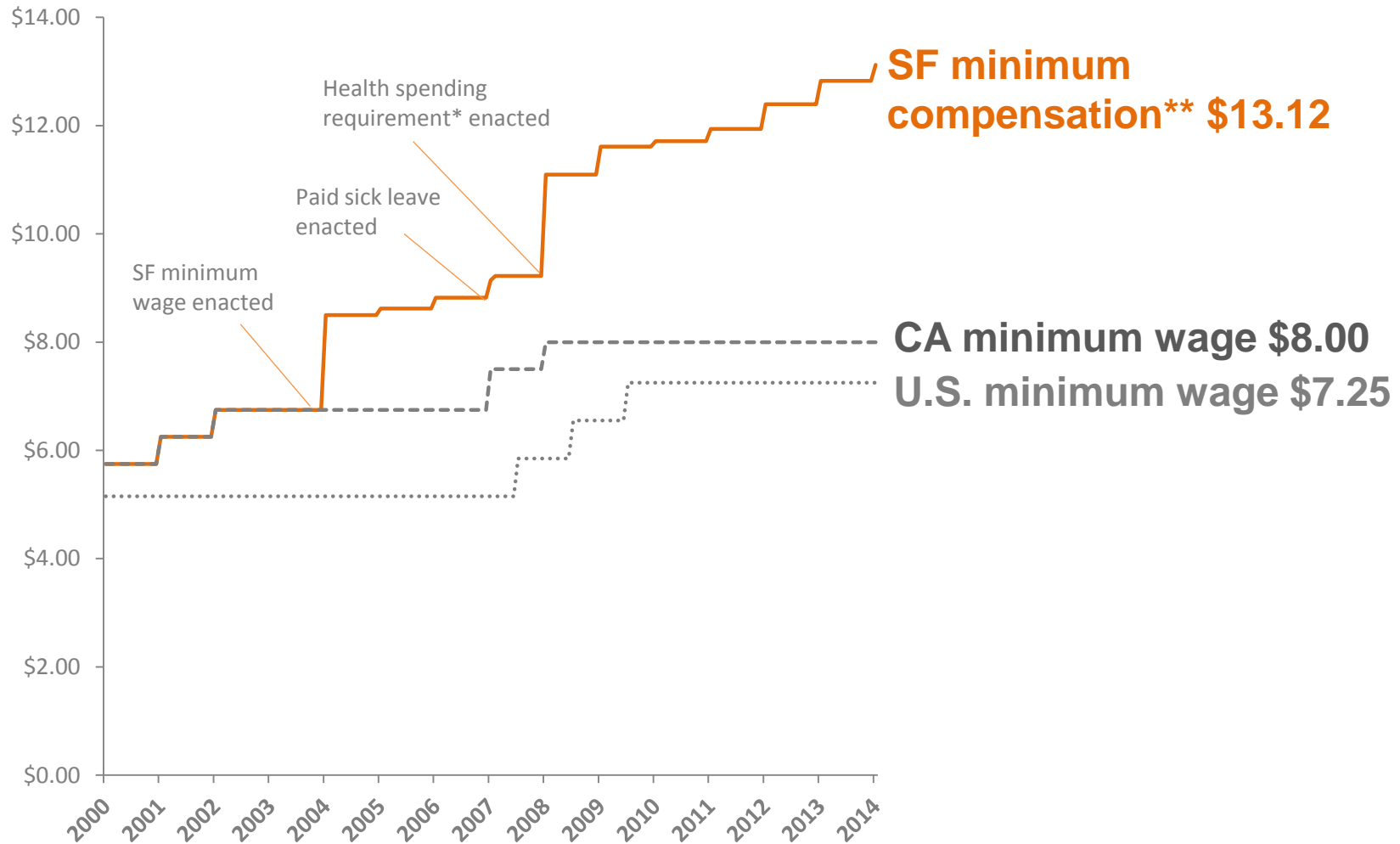
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# OUTLINE

- **Impacts of City Minimum Wage Laws**
- **Minimum Wage economics**
- **How are higher wage costs absorbed?**
- **Enforcement**

# Minimum Compensation in SF, CA, and U.S.

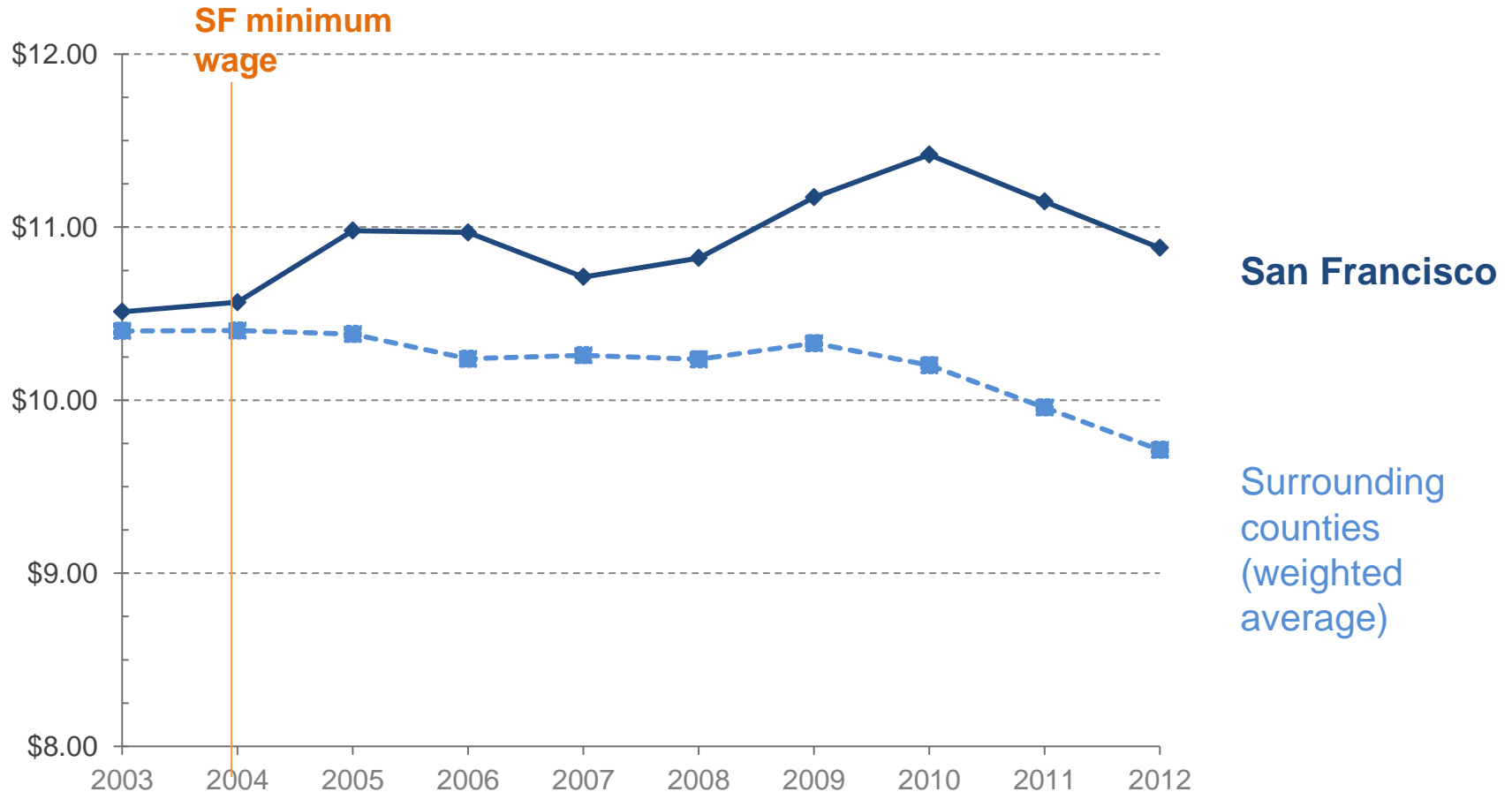


\* Health care spending level shown for a large employer (100+ workers)

\*\* Shows average minimum compensation for a large employer, adjusted to reflect that most employees do not use the maximum amount of paid sick leave, and that employers have alternative behavioral responses to the health spending requirement.

# Real wages for lowest-paid workers: rose in SF, fell in rest of Bay Area

Inflation-adjusted hourly wages for the lowest 10<sup>th</sup> of Bay Area workers



10<sup>th</sup> percentile hourly real wages, 2003-2012 in 2012 dollars

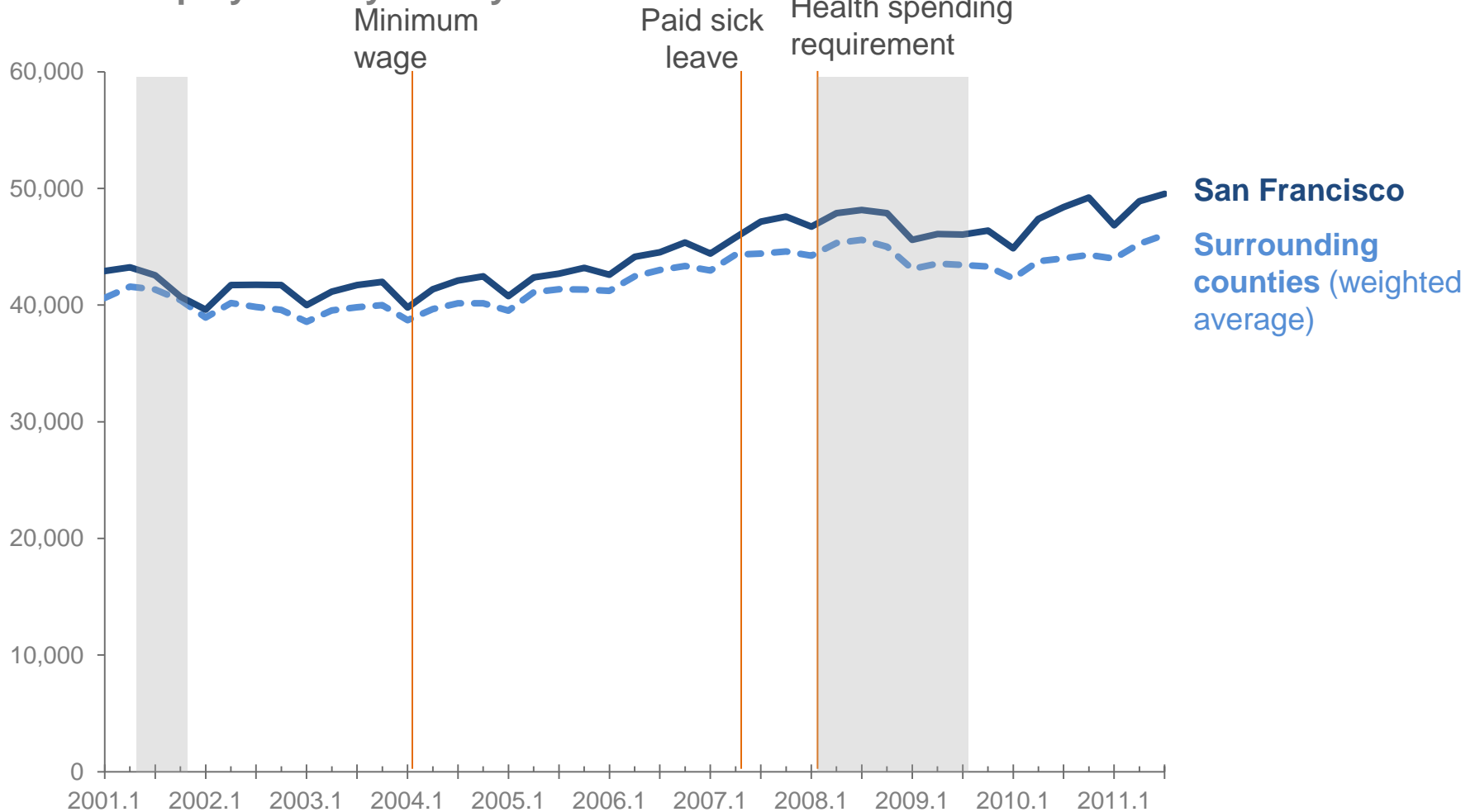
Surrounding counties include San Mateo, Santa Clara, and Alameda counties

# Effects of local laws on workers and families

- Raised pay for workers at bottom of labor market
- Direct effect on workers earning below new minimum wage
- Ripple effect on workers earning slightly above new minimum
- Affected workers are largely adults and especially women and people of color
- San Francisco: 55,000 workers received pay increases totaling \$1.2 billion over 10 years

# Francisco strong relative to surrounding counties

San Francisco Bay Area restaurant employment by county



Surrounding counties include San Mateo, Santa Clara, and Alameda counties

# **Effects on employment . evidence from state and federal laws**

- **22 States with higher minimum wage than the federal government**
- **Early studies: no controls for regional trends**
- **Comparing across county borders**
- **No measurable effect on employment (restaurants/teens)**

# How cost are actually absorbed

## Multiple adjustment channels

Reduced  
turnover

Improved  
performance

Small increases  
in restaurant  
prices

Lower profits?



# Higher wages reduce turnover

Sector	Percent wage increase	Percent turnover decline
Restaurant workers	10*	-2.1
Airport screeners	55	-80
Cabin cleaners	15	-44
Baggage handlers	18	-25
Homecare workers	13	-17
Los Angeles city contract workers	25	-35

\*10 percent increase in the minimum wage

# Turnover is costly

- Replacement costs: vacancies, hiring, training, lost productivity
- Median replacement cost for jobs paying \$30,000 or less: 16.1 percent of employees annual earnings
- Estimated share of cost of wage increases saved from reduced turnover: 18 percent

# Effects on worker performance

Employers at SFO: improvements in	Fast food restaurants in the South
<ul style="list-style-type: none"><li>• Worker performance</li><li>• Morale</li><li>• Absenteeism</li><li>• Grievances</li><li>• Disciplinary issues</li><li>• Customer service</li><li>• Equipment maintenance</li><li>• Equipment damage</li></ul>	<ul style="list-style-type: none"><li>• Increased performance standards</li><li>• Requiring better attendance</li><li>• Requiring faster performance of job duties</li><li>• Quicker termination of non-performing employees</li><li>• Economizing on non-labor inputs</li></ul>

# More on firm costs

- **Key factors**
  - **Share of workers receiving wage increases**
  - **Most workers do not get full increase**
  - **Labor share of operating costs**
    - ~10 percent in retail (excluding management salaries)
    - 30 percent in limited service restaurants
- **Increase from \$7.25 national minimum wage to \$10.10 would increase restaurant operating costs by 2.1 percent**

# Price increases

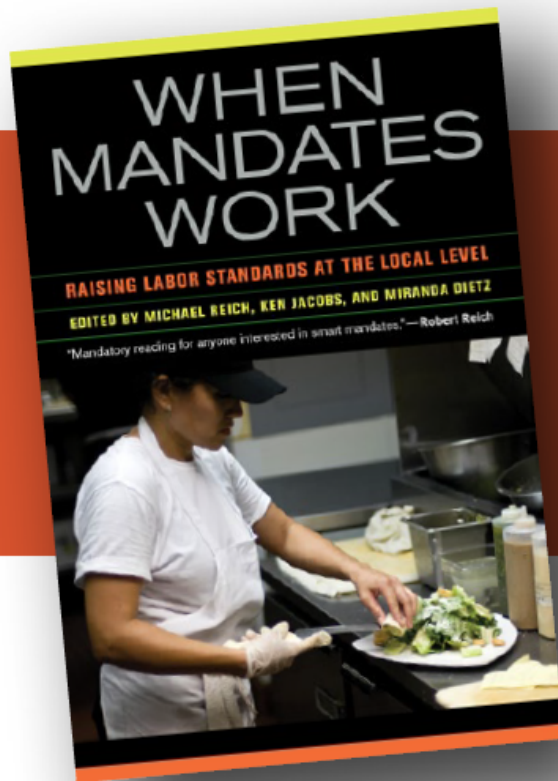
- 10 percent minimum wage increase: 0.7 percent increase in restaurant prices
- 25 percent increase in San Francisco minimum wage: 2.8 percent increase in restaurant prices
- Price effects outside of restaurants: negligible

# Conclusions and a caveat

- City minimum wage laws an effective policy to improve income of low-wage workers
- Laws have their intended effect: raise wages for low-wage workers and benefit low-income families
- Moderate minimum wage increases have no discernable effect on employment
- Firms absorb higher costs through a variety of means, including reduced turnover and small increases in restaurant prices
- Existing research findings are necessarily limited to the range of implemented minimum wages

# Enforcement--San Francisco

- Variety of enforcement and education strategies
- 7.5 positions devoted to minimum wage and paid sick leave enforcement, approximately \$979,000
- Additional \$462,000 contract to community organizations that provide education, outreach and case referrals
- 2004-2012, 616 worker complaints resulting in \$5.8 million in back wages for 3,004 workers



# WHEN MANDATES WORK

## Raising Labor Standards at the Local Level

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